METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

February 1, 2008

Mr. James S. Simpson
Administrator
Federal Transit Administration
U.S. Department of Transportation
1200 New Jersey Avenue, SE, Suite E57-314
Washington, DC 20590

Dear Administrator Simpson:

Thank you for your letter of January 24, 2008, regarding the Dulles Corridor Metrorail Project—Extension to Wiehle Avenue (Project). I appreciate the additional time you have given us to respond to your concerns. I believe the information we are submitting addresses the issues you have raised and affirms that the Project qualifies for an overall New Starts "Medium" rating.

In light of the extraordinary effort that has been put into this Project by so many parties over the last 10 years and the critical importance of the Project to the Washington, D.C. region, I ask that the Federal Transit Administration (FTA) continue to work with the Metropolitan Washington Airports Authority (Airports Authority) and the Commonwealth of Virginia to resolve all outstanding issues and move the Project into final design.

This letter, along with the materials in the accompanying binder, addresses the areas of Project concern raised in your January 24 letter: (1) Project Cost Effectiveness; (2) the Project's Financial Plan; and (3) risks and uncertainties associated with (a) the capacity of the Airports Authority and the Project's consolidated Management team to effectively manage the Project, (b) the Project's Design-Build contract with Dulles Transit Partners (DTP), and (c) the ability of the Washington Metropolitan Area Transit Authority (WMATA) to finance its ongoing system-wide capital needs and to maintain the Project, once constructed, in a state of good repair.

1. Project Cost Effectiveness

The Airports Authority is pleased to provide documentation substantiating the Project's cost reductions and trusts it meets with your approval.

Tab 1 of the binder contains a range of materials that address the Project's cost reductions, including the documentation you have requested. These include a summary of cost reductions, totaling $242.3 million, that have been made to the Project. These reductions lower the overall cost of the Project to $2.55 billion, and when financing is included, to $2.96 billion.

Tab 1 also contains a series of executed change orders and directives to DTP that incorporate the cost reductions into the Project Cost Budget, and documentation of other project cost reductions.

The Airports Authority believes that with this documentation of the $242.3 million in cost reductions, the FTA should be in a position to approve the price adjustments and assign the Project a "Medium-Low" Cost Effectiveness rating that is consistent with the minimum requirement for this Project established in SAFETEA-LU.

2. Financial Plan

Tab 2 of the binder contains Supplemental Information to the Preliminary Financial Plan.

This material, together with the Financial Plan and information included in the Project's September 2007 application to enter Final Design, addresses the capital financial plan concerns identified in your January 24 letter: assumptions regarding growth in Dulles Toll Road revenues and an aggressive financing structure (largely through the backloading of debt).

First, the size of the anticipated TIFIA loan has been decreased and the size of the Dulles Toll Road revenue bonds has been increased by approximately $70 million. This adjustment increases the percentage of funds to over 75 percent that can be considered committed local funding for the Project. This level of committed local funding meets the FTA threshold for a "Medium-High" rating in the subcategory of Commitment of Capital Funds.

Second, the forecasted Dulles Toll Road transactions have been updated to reflect actual toll revenues from FY 2005, 2006, and 2007, and this revised base case has been modified to reflect an annual growth in toll transactions of 0.4 percent. This revised forecast is conservative and shows that revenues from the Dulles Toll Road are adequate to finance its local share of the Project. Considerable capacity for additional debt remains.

Third, best practices for toll road financings generally involve backloaded debt repayments to mirror the projected revenue stream and the ability to increase tolls over time. However, rail projects are often financed by sales tax revenue bonds that use more level debt scenarios. Transit debt financed by sales tax revenue is structured differently because the sales tax rate is determined at the outset and is not subject to regular adjustments. In addition, the sales tax revenues are also used to subsidize operating deficits, resulting in relatively high coverage ratios. However, to ensure that your concerns have been addressed, we have restructured debt repayment assumptions to lessen the amortization in later years.

The operating plan has been updated with new information to address the FTA's comments regarding WMATA'scurrent operating conditions and assumptions behind the O&M cost forecast. Based on the strong commitment of operating funds, the financial commitment of WMATA, and the reasonableness of the planning assumptions, the Operating Financial Plan is eligible for a "Medium" rating, consistent with the past two years.

With these changes, the Project qualifies for a "Medium" Local Financial Capacity rating.

3. Risk Concern Associated with the Capacity of the Airports Authority and Project Management Team to Manage the Project

Tab 3 of the binder contains materials related to the construction experience and capabilities of the Airports Authority and its Project Team, including:

- The professional qualifications of the consolidated Project Management team, which in particular shows team members' experience in heavy rail transit, design-build, and large transportation infrastructure projects.

- Materials showing the integration of the Project Management team with WMATA, Project Management Support Services (PMSS), Fairfax County, and other Project partners.

- A description of the Airports Authority's $7.2 billion Capital Construction Program (CCP).

- Detailed responses to the recommendations made by the Project Management Oversight Consultant (PMOC) in its Grantee Technical Capacity and Readiness reports, identifying the actions the Airports Authority has and will undertake to meet these recommendations.

- A letter, dated January 31, 2008, from the General Manager of WMATA that addresses the Project-related working relationships and agreements between WMATA and the Airports Authority and the long-term capital needs of WMATA.

These materials demonstrate that the Airports Authority has the legal, financial, and technical capacity to manage the Project. Indeed, the PMOC Technical Review of Grantee's Readiness to Enter Final Design report to the FTA, dated January 14, 2008, reaches this very conclusion stating that, subject to the addition of certain personnel, "Airports Authority management [has] demonstrated experience to manage large projects" and "Airports Authority staff assigned to the project is capable and experienced."

Importantly, the Airports Authority has agreed to all recommendations in the PMOC reports. With respect to the recommendations to hire additional personnel with specific qualifications, recruitment efforts are underway. (See recruitment announcements on the Airports Authority website: www.mwaa.com.)

The Airports Authority has extensive experience managing very large construction projects. This track record is recognized by all three major bond rating agencies in favorably reviewing the Airports Authority credit ratings (See Tab 2). The current CCP for Washington Dulles International and Ronald Reagan Washington National Airports (Washington Dulles and Reagan National) is valued at $7.2 billion, of which $3.5 billion has been completed. Included within this program is a $1.3 billion automated fixed guideway system, which is nearing completion on time and within budget.

The Airports Authority's CCP experience also includes the construction of capital improvements for third party users including many airlines, the Federal Aviation Administration (new air traffic control towers at Washington Dulles and Reagan National), and the Federal Customs and Border Protection (expanded International Arrivals Building at Washington Dulles). In 2007 alone, the Airports Authority completed over $750 million of engineering and construction activity, which totaled over 5.3 million man-hours.

The Airports Authority has assembled a Project team that includes key personnel with extensive experience in large transit and design-build projects and has taken steps to bring on new staff with such experience. The Airports Authority's design-build contractor for the Project, DTP, has assembled a world-class team of experts with experience in heavy rail construction.

Further, the overall Project management structure properly aligns the relationship between WMATA, the ultimate owner and operator of the Project, and the Airports Authority. The relationship between the Airports Authority Project staff and WMATA is similar to that often found between the construction and operations departments within any transit agency. The relationship between the Airports Authority and WMATA Project staff is close and integral, and consistent with the Project Management Plan (PMP) and our Cooperative Agreement. WMATA staff is co-located in the Project office with the Airports Authority's Project Director and Airports Authority staff. The Airports Authority is cognizant that the Project must be built to WMATA standards and accepted into the WMATA system. The Airports Authority's contract with DTP requires the Project to be designed and constructed to such WMATA standards and failure to do so is the sole risk of DTP. These assurances are reinforced by an independent program management support services contractor with considerable resources and technical expertise.

As to FTA's implied concern about potential difficulties in the working relationship between WMATA and the Airports Authority, WMATA's Executive Director John Catoe, has put this concern to rest: In his recent letter (See Tab 2), Mr. Catoe states (pp. 1 and 2):

> I am writing to express and reaffirm Metro's strong support for the Dulles Corridor Metrorail Project. This is a critical project in an important economic and transportation corridor in the National Capital Region and as you are aware, the Metro Board has adopted several resolutions in support of this project.

* * * *

> It is my understanding that recent and routine staff-to-staff communications on the need to resolve certain technical issues is being interpreted as a serious problem. I want to clarify that these are routine technical issues that at this time do not rise to the level of significance that is being attached to it by the FTA or the media. We are committed to working in mutual cooperation with you and your staff to seek their resolutions consistent with the requirements of the MWAA-Metro IGA and the supporting Metro Board Resolutions.

I believe these materials should remove any doubt as to the Airports Authority's capacity to manage the Project.

4. Risk Concern Associated with the Project's Design-Build Contract

Tab 4 of the binder contains a summary of the favorable risk allocations made by the Project's Design-Build contract. As shown in Tab 4, DTP has assumed the risk of completing the majority of this Project for the firm fixed-price of $1.1 billion of the $1.6 billion contract. These contract allocations address the FTA's concern that the Project is vulnerable to unrestrained cost escalations and costly schedule delays and fails to transfer substantial risk to DTP.

First, DTP has assumed considerable commercial risk in the Design-Build contract. It bears the risk of design evolution from preliminary design (30 percent) to final design (100 percent), as well as scope completion and the interface risk between subcontractors. All risks of excess costs in these areas remain fully with DTP.

Second, the only work that is not subject to a firm fixed-price is approximately $500 million of certain Allowance Items. These Allowances were carved out of the firm fixed-price to eliminate unwarranted contingency and provide for a competitive, transparent procurement environment once the design for such items was sufficiently developed to enable subcontractors to bid such work.

Third, the contract provisions that provide DTP the possibility of additional payments beyond contract-established fixed amounts are limited, with substantial documentary evidence required to demonstrate cause and effect before any adjustments will be provided.

Fourth, the Design-Build contract goes directly to the issue of cost and schedule "vulnerability" by providing an additional layer of protection against cost and schedule overruns. DTP has contractually assumed full responsibility for all design and integration efforts between preliminary and final engineering. This protection was derived from the contracting approach used on this Project, where DTP was paid to perform the preliminary engineering. This enabled the Airports Authority to eliminate one of the major risks to an owner using a design-build delivery system since deficiencies or ambiguities in the preliminary design are generally assumed by the owner when the design-builder does not perform the preliminary design.

Fifth, the contract assigns to the Airports Authority substantial control regarding the Project schedule, which is designed to ensure that schedule milestones are fully met.

To reiterate, as shown in Tab 4, DTP has assumed the following risks that:

- Labor cost will rise over the life of the Project;
- DTP cannot complete the work within the agreed-upon schedule;
- Delays of 30 days will arise from late completion of utility work and 45 days will arise from force majeure events; and
- Latent defects could arise within five years after completion of construction.

Further, the contract provides for full parental guarantees for the Project and payment and performance bonds in the amount of $250 million.

The Design-Build contract that will govern much of this Project substantially mitigates cost increases being absorbed by the Project sponsor.

5. Risk Concern Arising from Ability of WMATA to Finance its System-wide Capital and Operating Needs and to Maintain the Project in a State of Good Repair

Tab 2 includes information that supplements the Project's Financial Plan and addresses the concern in your January 24 letter regarding "unresolved [WMATA] capital funding needs for maintaining [its] current system..."

Initially, it is essential to recognize the WMATA Board of Directors has determined that WMATA will be financially capable of operating and maintaining the Project after its completion. On June 24, 2007, the Board voted to approve the Financial Plan for the Project, and expressly found that, "the cost of operating and maintaining WMATA's current bus and rail systems, in addition to Dulles Phase 1, is within the financial capacity of WMATA and the contributing jurisdictions…" Once constructed, the Project will represent a very small portion of the overall capital needs of the WMATA system, making up less than four percent of WMATA's Capital Improvement Program from 2008 to 2013.

It is important to note that the member jurisdictions of the WMATA Compact have made a commitment to meeting WMATA's long-term rehabilitation and replacement needs through the adoption of the regional Constrained Long-Range Plan (CLRP). Both the FTA and the

Federal Highway Administration have reviewed and approved the CLRP and the funding commitments contained therein.

The CLRP includes a financial plan that shows a forecast for costs and revenues. The financial plan demonstrates that the estimated revenues from existing and proposed sources that can reasonably be expected to be available equal the estimated costs of expanding -while adequately maintaining and operating- the transit system in the region from 2007 through 2030. As shown in the summary of the CLRP Financial Plan, the CLRP is financially constrained to include only available resources. As such, the projected transit ridership is constrained to be consistent with the available funding for the capacity improvements. For the past seven years, the CLRP Financial Plan has included the Dulles Project in the funded elements.

Furthermore, the Airports Authority, as does WMATA, recognizes that a regional strategy is needed to address WMATA's long-term capital needs and substantial progress on such a strategy has recently been made. In fact, all three member jurisdictions of the WMATA Compact–Virginia, Washington, D.C., and Maryland–have taken the steps necessary to secure stable and dependable long-term funding for the recapitalization of the WMATA system.

- In 2007, the Virginia General Assembly approved a transportation funding bill, HB-3202, that will generate upwards of $1.5 billion per year statewide and $500 million for Northern Virginia, that dedicates $50 million per year to WMATA and that will provide WMATA with additional operating assistance.

- On April 27, 2006, Mayor Anthony Williams signed DC Bill 16-569, *the Washington Metropolitan Area Transportation Authority Fund Act of 2006,* which dedicates one-half of one percent of the District of Columbia retail sales tax to provide additional funding for maintaining and improving the transportation system of WMATA.

- In 2007, the Maryland General Assembly provided dedicated funding for WMATA through the State's transportation trust fund.

With these funding sources, along with the enactment of federal legislation, WMATA will have secured a steady stream of funding for its long-term capital needs, including those arising after completion of the Project.

In conclusion, for all of these reasons we believe that the Project qualifies for an overall "Medium" rating and for entry into Final Design. Before any final FTA decision is made on the Project, we ask that a good faith effort be made, by all the parties, to try to work through any remaining issues and to answer any questions you may have.

We are hopeful that a continued dialogue among the parties will enable this important regional transit project to move forward.

Sincerely,

James E. Bennett
President and Chief Executive Officer

Enclosure

cc: The Honorable Timothy M. Kaine
Mr. Pierce R. Homer, Secretary of Transportation, Commonwealth of Virginia
Mr. Gerald Connelly, Chairman, Fairfax County Board of Supervisors
Mr. Anthony H. Griffin, County Executive, Fairfax County
Mr. Kirby M. Bowers, Administrator, Loudoun County
Mr. John B. Catoe, Jr., General Manager, Washington Metropolitan Area Transit Authority
Metropolitan Washington Airports Authority Board of Directors